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*FINANCE COMMITTEE SLIDES / Do not change slides for
Bd presentation -- this is a separate set of slides*

Legal Update

- RJR/LeBow -- focused attention on fraudulent conveyance
- fraudulent conveyance involves a distribution to shareholders by an insolvent corporation
- Nabisco represents two-thirds of RJR market value
- Plaintiffs would have sought to enjoin spin-off

1-4

①

Legal Update

- Liggett settlement a ploy
- Plaintiffs agreed not to challenge spin-off

5-6

②

Safe Harbor for Distributions

- Remedy under fraudulent conveyance statutes is to recover transferred property
- Under corporate law directors may be liable for unlawful distributions
- Virginia has statutory safe harbor for distributions
- "Distribution" includes dividends, repurchases and spin-offs
- Challenge must come within two years

7-11

③

Safe Harbor for Distributions

- Two solvency tests
 - ability to pay debts in usual course
 - total assets exceed total liabilities
- Solvency determination may be based on financial statements or other reasonable method
- Safe harbor protects directors even if hindsight proves them incorrect

12-16

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Safe Harbor for Distributions

- Past solvency determinations were implicit
- Unlikely that PM's dividend would be challenged
- RJR increased dividend 23% and initiated share repurchase program without challenge
- Routine distributions out of cash flow not likely to be challenged

17-20

⑤

Safe Harbor for Distributions

- Board should take explicit advantage
- Proper determination will protect directors
- No downside, and prudent
- Procedural steps to determine solvency

21-24

⑥

Safe Harbor for Distributions

- Management's advice: Solvency tests are met
 - financial statements show substantial cash flow and equity; auditors report is "clean"
 - litigation should not have material adverse effect
 - Outside counsel reviews payout plans
 - five-year plan projects substantial cash flow and PM is strongly capitalized and highly liquid
 - external validation (credit ratings, borrowing capacity and market capitalization)

25-30

⑦ ✓

Safe Harbor for Distributions

- Finance Committee ^{should} concluded solvency tests ^{are} satisfied
- Safe harbor is available
- Directors can rely on advice of management, ~~the Finance Committee~~ and financial statements
- Formal determination should be made for all distributions

31-34

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Breach of Duty Actions by Shareholders

- Virginia statutory standard protects directors
 - good faith (honest efforts)
 - business judgment (informed decisions)
 - best interest (allegiance to PM)
- Compliance absolves directors from liability

35-39

Breach of Duty Actions by Shareholders

- Reliance on information presented by
 - officers and employees
 - counsel, accountants and other experts
 - board committees

40-43

Breach of Duty Actions by Shareholders

- Directors role is oversight and policy
- Directors may delegate
- Liable only for willful misconduct and knowing violations of criminal or securities laws

44-46

Breach of Duty Actions by Shareholders

- Friedland case
 - breach of duty case
 - alleged that Company's position on tobacco was false, caused injury to the Company and was approved by directors
 - dismissed voluntarily
 - Virginia law provides a good measure of protection from such claims

47-51

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Securities Claims

- Potential exposure for material omissions or misstatements
- No liability to open market purchasers absent recklessness, fraud or bad faith
- Due diligence defense available for claims by direct purchasers
- Reasonable reliance and delegation permitted
- Directors should be satisfied with disclosure procedures and should read 10-K and MD&A

52-56

Securities Claims

- San Leandro -- failure to disclose Marlboro Friday
 - Dismissed because total disclosure mix was adequate
- Kurzweil -- inadequate disclose of nicotine issues
 - PM adequately disclosed debate and possible outcome

57-60

Securities Claims

- Cases did not name outside directors
- Risks are properly disclosed
- Directors have been diligent

61-63

Tort Claims

- Tort liability arises from conduct, not status
- Specific direction or sanction required
- Directors not liable for torts without personal knowledge of wrong and negligence
- No duty to ferret out wrongdoing

64-67